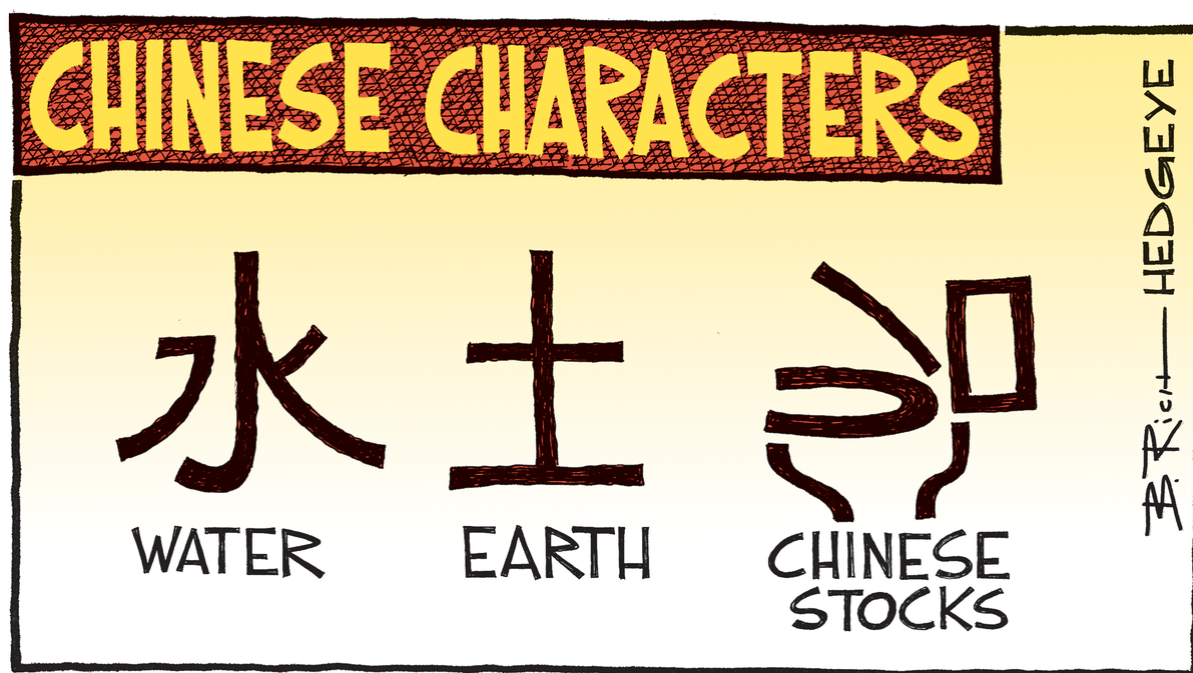


Market Review End of July 2018



In the torpor of the summer, this monthly letter will be short. We will come back in early September with a more detailed outlook in conjunction with our investment committee.

Risk appetite was in vogue again among investors in July. Equity markets performed well, credit markets were supportive as well in Europe following weeks of widening spreads. The strengthening USD forced some liquidation in commodities (oil, gold, copper). The US economy grew at 4.1% on an annualised basis in Q2.

Market moves at the end of July

Equities in Local Currencies								
End of July	MSCI World	S&P 500	EuroStoxx	CAC	Spain	Switzerland	UK	Hong Kong
Perf 1 Month	3.05%	3.60%	3.83%	3.53%	2.58%	6.56%	1.46%	-1.29%
Perf 3 Month	3.19%	6.35%	-0.31%	-0.17%	-1.10%	3.24%	3.19%	-7.22%
Perf YTD	2.36%	5.34%	0.61%	3.74%	-1.72%	-2.21%	0.79%	-4.47%

Commodities				Currencies vs EUR			
End of July	WTI Oil	Gold	Copper	USD	JPY	GBP	CHF
Perf 1 Month	-7.27%	-2.32%	-4.92%	-0.18%	-1.15%	-0.78%	-0.12%
Perf 3 Month	0.28%	-6.94%	-7.45%	3.38%	-0.89%	-1.42%	-3.25%
Perf YTD	13.80%	-6.06%	-13.07%	2.56%	3.38%	-0.40%	1.03%

Bloomberg Indices Bonds Total returns						
End of July	Global Aggregate	US Aggregate	Euro Aggregate	US 10 Year	German 10 Year	Emerging Sovereign USD
Perf 1 Month	-0.17%	0.02%	-0.20%	-0.59%	-1.04%	1.65%
Perf 3 Month	-1.36%	0.61%	-0.42%	0.56%	2.81%	0.24%
Perf YTD	-1.62%	-1.59%	0.06%	-2.58%	2.83%	-2.25%

Source Bloomberg 31/07/18

Trade tensions initiated by Mr Trump are reshaping the world economic relationships. Treaties and agreements with economic partners in North America, Europe, Asia and China have all been redrawn.



In geopolitics as well, relationships with Russia, Iran, Turkey, NATO are reconsidered from a different angle (which still remains to be defined!).

A new economic framework should soon be signed between Mexico and the USA. This should be the basis for renegotiating the terms of the NAFTA treaty with Canada. Once this is in the bag, Mr Trump will turn to Europe to extract further concessions.

The relationship with China is at a different level. The economic issues are masking more important strategic, geopolitical tensions. For decades, American consumers have enjoyed cheap manufactured products imported from Japan, then Korea and now China. In order to maintain their consumption addiction, Americans have relied on credit and the extraordinary power of their world reserve currency. Japan and Korea were always reliant on US military support for their prosperity and had no choice but to offer “vendor financing” to America (buying US treasuries).

The Chinese – US relationship started the same way (cheap export and support of US debt). The real and fundamental difference is that China does not need US military protection! It wants to compete and extend its world dominance, first in Asia then in other parts of the world (Africa, Europe, etc...).

The economic rise of China coincides with changes in US global intervention. The USA can no longer support all its historical allies. It is no longer economically feasible. China’s ascension is benefiting from this vacuum. It is forging new ties in Europe, Middle East and Africa.

Xi Jinping, the Chinese President has outlined two complementary expansionist strategies: “one belt road” and “Made in China”. The former aims at making China a key trading partner for a large range of countries (through economic support, infrastructure development or trading agreements) is already visible in many Asian countries and is spreading into Europe through stakes in Airports (France), Ports (Greece), Energy generation (Portugal, UK), Germany (banks, corporations). The latter is design to put China first and be less dependent in foreign technologies.

Those 2 strategies are clearly interlinked. Through a combination of China subsidizing its own companies to innovate and develop their own technologies, and buying or perhaps stealing valuable technology from western companies, China could become a global leader in technological innovation. Its economic growth continues to outpace American economic growth.

A future economic cold war between the U.S. and China may push American leaders to favor a pro-growth policy at any price, even if that risks stoking additional inflation and inflating economic bubbles. If China invests more in space exploration, that could kick off another space race. In whatever realm China decides to emphasize, the U.S. will be afraid to let it get too far ahead. Fights over currency manipulation and soybean tariffs are likely to be just the beginning. The economic conflict between the U.S. and China could define the next generation of Americans.

Emerging markets recent struggles are a bonanza for China. Turkey, a key NATO ally is now turning to Russia for military alternative and to China for financial support. Iran is still selling crude oil to China, despite US sanctions.

We are unlikely to see military confrontations similar to the Russian-US cold war area. Economic supremacy and world influence is the end game. The centre of gravity has shifted to the Pacific Ocean. Europe is a weak partner for USA. It is already a Trojan horse for Chinese companies with its open market. European financial weaknesses make occasionally the perfect opportunity to inject liquidity for struggling entities (and put a foot in the door).

How do we play all this? Our thematic approach has identified technological innovations as the centrepiece of future growth. China and USA will fight head to head for economic supremacy.



Cybersecurity, artificial intelligence, space, Telecom (cloud), robotics are areas where both countries will invest heavily. America has one advantage: natural resources. These could be China's Achilles heel: energy and food import.

Year-to-date a slowdown of the Chinese economy has deterred investors (hence our cartoon), but financial support and currency adjustments will soon stabilise this market.

“China is a sleeping giant. Let her sleep, for when she wakes she will move the world.”

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